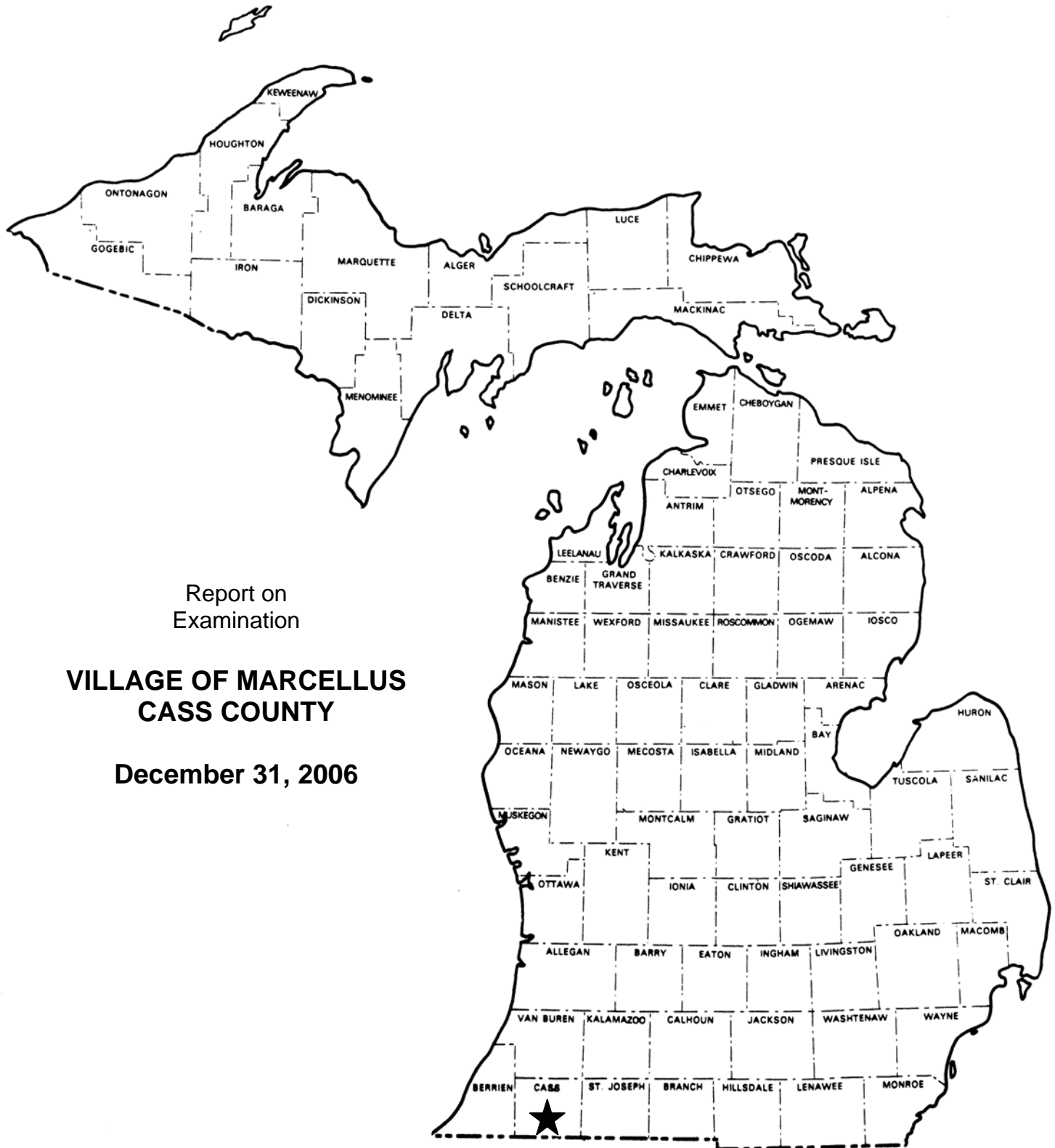


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



Local Audit and Finance Division  
Bureau of Local Government Services

VILLAGE OF MARCELLUS

VILLAGE COUNCIL

Larry Davis  
President

Scott Wiles  
Council Member

Sandra Albain  
Council Member

John Haney  
Council Member

Burke Webb  
Council Member

Krista Jourdan  
Clerk

Martha Peake  
Treasurer

VILLAGE POPULATION--2000  
1,193

TAXABLE VALUATION--2006  
\$12,898,065



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

October 15, 2007

Village Council  
Village of Marcellus  
P.O. Box 428  
Marcellus, Michigan 49067

RE: Unqualified Opinion on Basic Financial Statements and Supplementary  
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Marcellus, Cass County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Village of Marcellus' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Village of Marcellus' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Marcellus, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2007 on our consideration of the Village of Marcellus' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 and the budgetary comparison information (Exhibits J through M) are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements, taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Marcellus' basic financial statements. The general fund detail schedule of revenues and expenditures (Exhibits N through O) are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The general fund detail schedule of revenues and expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# VILLAGE OF MARCELLUS

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**VILLAGE OF MARCELLUS**

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## VILLAGE OF MARCELLUS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### *Using this Annual Report*

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village, as a whole, and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

#### *The Village as a Whole*

The Village's net assets increased approximately 2%, or \$19,195, from \$872,180 to \$891,375 for the year ended December 31, 2006. The investment in capital assets-net of related debt decreased by \$1,522 due to the depreciation expense recorded for the year 2006. The unrestricted net assets increased by \$23,103 and the restricted assets decreased \$2,386 during 2006. Reasons for the increase included the Village's increasing tax base and efforts to keep expenses down.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charges or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. All assets as such (except for assets invested in capital assets-net of related debt) are considered restricted.

Net assets as of year ended December 31, 2006 are as follows:

	Governmental Activities 2005	Governmental Activities 2006	Difference	Percent
Current Assets	\$ 500,918	\$ 533,877	\$ 32,959	7%
Noncurrent Assets	406,364	404,842	(1,522)	0%
Total Assets	907,282	938,719	31,437	3%
Current Liabilities	35,102	47,344	12,242	35%
Total Liabilities	35,102	47,344	12,242	35%
Net Assets				
Invested in Capital Assets				
Net of Debt	406,364	404,842	(1,522)	0%
Restricted	140,341	137,955	(2,386)	-2%
Unrestricted (Deficit)	325,475	348,578	23,103	7%
Total Net Assets	\$ 872,180	\$ 891,375	\$ 19,195	2%

# VILLAGE OF MARCELLUS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Business-Type Activities 2005	Business-Type Activities 2006	Difference	Percent
Current Assets	\$ 590,051	\$ 730,891	\$ 140,840	24%
Noncurrent Assets	1,723,628	3,197,793	1,474,165	86%
Total Assets	2,313,679	3,928,684	1,615,005	70%
Current Liabilities	1,121	15,590	14,469	1291%
Long-Term Liabilities	1,076,500	2,512,000	1,435,500	133%
Total Liabilities	1,077,621	2,527,590	1,449,969	135%
Net Assets				
Invested in Capital Assets	647,128	685,793	38,665	6%
Net of Debt				
Unrestricted (Deficit)	588,930	715,301	126,371	21%
Total Net Assets	\$ 1,236,058	\$ 1,401,094	\$ 165,036	13%

The following table shows the changes of the net assets as of the current year to the prior year:

	Governmental Activities 2005	Governmental Activities 2006	Difference	Percent
Program Revenues				
Charges for Services	\$ 140,685	\$ 129,590	\$ (11,095)	-8%
Operating Grants and Contributions	83,357	85,779	2,422	3%
General Revenues				
Property Taxes	172,727	185,703	12,976	8%
State-Shared Revenues	139,580	138,664	(916)	-1%
Unrestricted Investment Earnings	7,275	11,982	4,707	65%
Other		12,468	12,468	100%
Total Revenues	543,624	564,186	20,562	4%
Program Expenses				
General Government	105,930	129,777	23,847	23%
Public Safety	107,071	113,985	6,914	6%
Public Works	180,096	276,015	95,919	53%
Community and Economic Development	328	521	193	59%
Recreation and Culture	7,800		(7,800)	-100%
Other	21,860	24,681	2,821	13%
Total Expenses	423,085	544,979	121,894	29%
Change in Net Assets	\$ 120,539	\$ 19,207	\$ (101,332)	-84%

# VILLAGE OF MARCELLUS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Business-Type Activities 2005	Business-Type Activities 2006	Difference	Percent
Program Revenues				
Charges for Services	\$ 339,836	\$ 408,820	\$ 68,984	20%
Capital Grants and Contributions	96,000		(96,000)	-100%
General Revenues				
Unrestricted Investment Earnings	11,140	30,510	19,370	174%
Total Revenues	446,976	439,330	(7,646)	-2%
Program Expenses				
Water and Sewer	284,191	274,294	(9,897)	-3%
Total Expenses	284,191	274,294	(9,897)	-3%
Change in Net Assets	\$ 162,785	\$ 165,036	\$ 2,251	1%

### Governmental Activities

The village's total governmental revenues increased \$3,743 and expenses increased \$114,632 as the village seal coated and repaved multiple roads this year.

	Governmental Activities 2005	Governmental Activities 2006	Amount Difference	Percent Difference
Revenues				
Taxes	\$ 176,684	\$ 184,305	\$ 7,621	4%
Licenses and Permits	5,511	5,179	(332)	-6%
State Grants	218,368	217,934	(434)	0%
Charges for Services	58,565	62,636	4,071	7%
Fines and Forfeits	500	80	(420)	-84%
Interest and Rentals	86,949	80,186	(6,763)	-8%
Other	1,004	12,468	11,464	100%
Total Revenues	547,581	562,788	3,743	1%
Expenses				
General Government	96,687	119,940	23,253	24%
Public Safety	107,071	113,985	6,914	6%
Public Works	184,011	282,630	98,619	54%
Community and Economic Development	328	521	193	59%
Recreation and Culture	7,800		(7,800)	-100%
Other	21,860	24,681	2,821	13%
Capital Outlay	11,068	1,700	(9,368)	-85%
Total Expenses	428,825	543,457	114,632	27%
Excess of Revenues Over Expenditures	118,756	19,331	(99,425)	-84%
Beginning Fund Balance	328,611	447,355	118,744	36%
Ending Fund Balance	\$ 447,355	\$ 466,686	\$ (110,889)	-25%

## VILLAGE OF MARCELLUS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### **Business-Type Activities**

The Village's business-type activities consist of the Sewer and Water Fund. The Village provides sewage treatment and water to all of their residents. The revenues and expenses of the sewer system for the year have increased as the Village is in the process of overhauling the system. The revenues for the sewer and water increased as the Village raised rates to pay for the new water and sewer systems.

#### **The Village's Funds**

Our analysis of the Village's major funds is listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2006 include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Sewer Fund, and the Water Fund.

The General Fund pays for most of the Village's governmental services. The most significant are for general government, public safety, and public works activities, which incurred expenses of approximately \$516,555 in 2006 of which the General Fund paid \$375,770. The Major, Local and Municipal Street Funds paid \$80,428, \$38,900, and \$21,457, respectively, for public works. These services are supported by the operating millage and State shared revenues. The Major Street Fund and the Local Street Fund account for the Michigan Transportation Funds received from the State and the maintenance performed on the Village's road system. The Municipal Street Fund accounts for the extra voted millage levied to assist the Major and Local Street Fund maintain the Village's road system. The Sewer and Water Fund are described above.

#### **General Fund Budgetary Highlights**

Over the course of the year, the Village's budget was prepared to take into account events during the year. No significant changes were made as revenues and expenses remained similar to the previous year.

#### **Capital Asset and Debt Administration**

At the end of 2006, the Village's governmental funds had \$404,842 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, equipment, vehicles, and road infrastructure; and \$3,197,793 invested in the sewer and water system. To pay for the sewer and water capital assets, the Village entered into various debt obligations with current outstanding debt totaling \$2,512,000.

## VILLAGE OF MARCELLUS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### **Economic Factors and Next Year's Budget and Rates**

The Village's budget for 2007 will remain relatively the same as the Village has planned more sidewalk and street repairs. In regards to the sewer system, the expenses will increase as the Village will finish overhauling the lagoons and pump stations in 2007.

#### **Contacting the Village's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's office at: 177 East Main Street, Marcellus, MI 49067 (Phone Number 269-646-5485).

**VILLAGE OF MARCELLUS**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**December 31, 2006**

**EXHIBIT A**

	<b>PRIMARY GOVERNMENT</b>			
	Governmental Activities	Business-Type Activities	Total	Component Unit
<b><u>ASSETS</u></b>				
Current Assets				
Cash and Cash Equivalents	\$ 9,142	\$ 153,498	\$ 162,640	\$ 17,279
Investments	402,655	579,896	982,551	
Receivables (Net)				
Taxes--Delinquent	19,847		19,847	
Accounts	7,387	32,356	39,743	
Internal Balances	34,859	(34,859)	-	
Due From State	59,987		59,987	
Total Current Assets	533,877	730,891	1,264,768	17,279
Noncurrent Assets				
Capital Assets--Net of Accumulated Depreciation	404,842	3,197,793	3,602,635	
Total Assets	938,719	3,928,684	4,867,403	17,279
<b><u>LIABILITIES</u></b>				
Current Liabilities				
Accounts Payable	47,344	15,590	62,934	7,091
Total Current Liabilities	47,344	15,590	62,934	7,091
Long-Term Liabilities				
Bonds Payable--Due Within One Year		36,500	36,500	
Bonds Payable--Due in More Than One year		2,475,500	2,475,500	
Total Long-Term Liabilities	-	2,512,000	2,512,000	-
Total Liabilities	47,344	2,527,590	2,574,934	7,091
<b><u>NET ASSETS</u></b>				
Investment in Capital Assets--Net of Related Debt	404,842	685,793	1,090,635	
Restricted for				
Major Street	19,965		19,965	
Local Street	-		-	
Municipal Street	117,990		117,990	
Downtown Development Authority				10,188
Unrestricted	348,578	715,301	1,063,879	
Total Net Assets	\$ 891,375	\$ 1,401,094	\$ 2,292,469	\$ 10,188

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2006**

**EXHIBIT B**

Functions/Programs	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	PRIMARY GOVERNMENT			Component Units
				Governmental Activities	Business-Type Activities	Total	
Primary Government							
Governmental Activities							
General Government	\$ 129,777	\$ 67,354		\$ (62,423)		\$ (62,423)	
Public Safety	113,985			(113,985)		(113,985)	
Public Works	276,015	62,236	\$ 85,779	(128,000)		(128,000)	
Community and Economic Development	521			(521)		(521)	
Other	24,681			(24,681)		(24,681)	
Total Governmental Activities	544,979	129,590	85,779	(329,610)	\$ -	(329,610)	
Business-Type Activities							
Sewer	105,984	201,662			95,678	95,678	
Water	168,310	207,158			38,848	38,848	
Total Business-Type Activities	274,294	408,820	-	-	134,526	134,526	
Total Primary Government	\$ 819,273	\$ 538,410	\$ 85,779	\$ (329,610)	\$ 134,526	\$ (195,084)	
Component Units							
Downtown Development Authority	\$ 41,902	\$ 39,138					\$ (2,764)
Total Component Units	\$ 41,902	\$ 39,138	\$ -	\$ -	\$ -	\$ -	\$ (2,764)
General Revenues							
Property Taxes				\$ 185,703		\$ 185,703	
State-Shared Revenues				138,664		138,664	
Unrestricted Investment Earnings				11,982	\$ 30,510	42,492	
Other Revenues				12,468		12,468	
Total General Revenues--Special Items				348,817	30,510	379,327	\$ -
Change in Net Assets				19,207	165,036	184,243	(2,764)
Net Assets--Beginning				872,168	1,236,058	2,108,226	12,952
Net Assets--Ending				\$ 891,375	\$ 1,401,094	\$ 2,292,469	\$ 10,188

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2006**

**EXHIBIT C**

	<b>MAJOR FUNDS</b>				
	General	Major Street	Local Street	Municipal Street	Total Governmental Funds
<b><u>ASSETS</u></b>					
Cash and Cash Equivalents	\$ 9,142				\$ 9,142
Investments	250,896	\$ 28,808	\$ 7,793	\$ 115,158	402,655
Receivables					
Taxes--Delinquent	14,149			5,698	19,847
Accounts	7,387				7,387
Due From State	48,810	7,704	3,473		59,987
Due From Other Funds	62,293		1,300	4,132	67,725
Total Assets	<u>\$ 392,677</u>	<u>\$ 36,512</u>	<u>\$ 12,566</u>	<u>\$ 124,988</u>	<u>\$ 566,743</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>					
Liabilities					
Accounts Payable	\$ 45,665	\$ 1,119	\$ 560		\$ 47,344
Due to Other Funds	4,132	15,428	12,006	\$ 1,300	32,866
Deferred Revenue	14,149			5,698	19,847
Total Liabilities	<u>63,946</u>	<u>16,547</u>	<u>12,566</u>	<u>6,998</u>	<u>100,057</u>
Fund Equity					
Fund Balances					
Reserved for					
Major Street		19,965			19,965
Local Street			-		-
Municipal Street				117,990	117,990
Unreserved--Undesignated	328,731				328,731
Total Fund Equity	<u>328,731</u>	<u>19,965</u>	<u>-</u>	<u>117,990</u>	<u>466,686</u>
Total Liabilities and Fund Equity	<u>\$ 392,677</u>	<u>\$ 36,512</u>	<u>\$ 12,566</u>	<u>\$ 124,988</u>	<u>\$ 566,743</u>
Fund Balances--Total Governmental Funds					\$ 466,686
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					404,842
Revenues that do not provide current financial resources are not reported as revenue in the funds--delinquent property taxes.					<u>19,847</u>
Net Assets of Governmental Activities					<u>\$ 891,375</u>

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2006**

**EXHIBIT D**

	<b>MAJOR FUNDS</b>				Total
	General	Major Street	Local Street	Municipal Street	Governmental Funds
Revenues					
Taxes	\$ 131,685			\$ 52,620	\$ 184,305
Licenses and Permits	5,179				5,179
State Grants	138,664	\$ 51,383	\$ 26,593	1,294	217,934
Charges for Services	62,636				62,636
Fines and Forfeits	80				80
Interest and Rentals	73,677	1,318	428	4,763	80,186
Other Revenue	12,468				12,468
Total Revenues	424,389	52,701	27,021	58,677	562,788
Expenditures					
Current					
General Government	119,940				119,940
Public Safety	113,985				113,985
Public Works	141,845	80,428	38,900	21,457	282,630
Community and Economic Development	521				521
Other	24,681				24,681
Capital Outlay	1,700				1,700
Total Expenditures	402,672	80,428	38,900	21,457	543,457
Excess of Revenues Over (Under) Expenditures	21,717	(27,727)	(11,879)	37,220	19,331
Other Financing Sources (Uses)					
Interfund Transfers In		23,478	6,300		29,778
Interfund Transfers (Out)				(29,778)	(29,778)
Total Other Financing Sources (Uses)	-	23,478	6,300	(29,778)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	21,717	(4,249)	(5,579)	7,442	19,331
Fund Balance (Deficit)--January 1, 2006	307,014	24,214	5,579	110,548	447,355
Fund Balance (Deficit)--December 31, 2006	\$ 328,731	\$ 19,965	\$ -	\$ 117,990	\$ 466,686
Net Change in Fund Balances--Total Governmental Funds					\$ 19,331
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.					
Add--Capital Outlay					25,178
Deduct--Depreciation Expense					(26,700)
Net decrease in revenue between the 2006 delinquent taxes and the 2005 delinquent taxes collected during 2006.					1,398
Change in Net Assets of Governmental Activities					\$ 19,207

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2006**

**EXHIBIT E**

	Major Funds		Total
	Enterprise Funds		Enterprise
	Sewer	Water	Funds
<b><u>ASSETS</u></b>			
Current Assets			
Cash and Cash Equivalents	\$ 132,463	\$ 21,035	\$ 153,498
Investments	249,213	330,683	579,896
Accounts Receivable	16,781	15,575	32,356
Total Current Assets	398,457	367,293	765,750
Noncurrent Assets			
Capital Assets--Net of Accumulated Depreciation	1,758,590	1,439,203	3,197,793
Total Noncurrent Assets	1,758,590	1,439,203	3,197,793
Total Assets	2,157,047	1,806,496	3,963,543
<b><u>LIABILITIES</u></b>			
Current Liabilities			
Accounts Payable	15,200	390	15,590
Due to Other Funds	14,772	20,087	34,859
Total Current Liabilities	29,972	20,477	50,449
Noncurrent Liabilities			
Bonds Payable--Due Within One Year	17,000	19,500	36,500
Bonds Payable--Due in More Than One Year	1,439,000	1,036,500	2,475,500
Total Noncurrent Liabilities	1,456,000	1,056,000	2,512,000
Total Liabilities	1,485,972	1,076,477	2,562,449
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets			
Net of Related Debt	302,590	383,203	685,793
Unrestricted	368,485	346,816	715,301
Total Net Assets	\$ 671,075	\$ 730,019	\$ 1,401,094

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS--PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2006**

**EXHIBIT F**

	Major Funds		Total
	Enterprise Funds		Enterprise
	Sewer	Water	Funds
Operating Revenues			
Charges for Services	\$ 201,662	\$ 207,158	\$ 408,820
Total Operating Revenues	201,662	207,158	408,820
Operating Expenses			
Wages and Fringes	34,701	40,471	75,172
Operating Expenses	2,989	5,681	8,670
Repairs and Maintenance	1,815	5,586	7,401
Contracted Services	19,947	2,154	22,101
General Insurance	2,725	4,439	7,164
Utilities	1,871	7,799	9,670
Vehicle Rental	14,730	11,495	26,225
Depreciation	19,392	41,723	61,115
Total Operating Expenses	98,170	119,348	217,518
Operating Income (Loss)	103,492	87,810	191,302
Nonoperating Revenues (Expenses)			
Interest Earned on Investments	16,507	14,003	30,510
Interest Expense	(7,814)	(48,962)	(56,776)
Total Nonoperating Revenues (Expenses)	8,693	(34,959)	(26,266)
Income (Loss) Before Contributions	112,185	52,851	165,036
Change in Net Assets	112,185	52,851	165,036
Total Net Assets--January 1, 2006	558,890	677,168	1,236,058
Total Net Assets--December 31, 2006	\$ 671,075	\$ 730,019	\$ 1,401,094

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2006**

**EXHIBIT G**

	Major Funds		Total
	Enterprise Funds		Enterprise
	Sewer	Water	Funds
Cash Flows From Operating Activities			
Cash Received From Customers	\$ 199,891	\$ 209,927	\$ 409,818
Cash Payments to Employees for Services and Benefits	(34,701)	(40,159)	(74,860)
Cash Payments to Suppliers for Goods and Services	(28,877)	(38,197)	(67,074)
Net Cash Provided by Operating Activities	136,313	131,571	267,884
Cash Flows From Noncapital Financing Activities			
Due To Other Funds	12,970	18,352	31,322
Net Cash Provided by Noncapital Financing Activities	12,970	18,352	31,322
Cash Flows From Capital and Related Financing Activities			
Acquisition of Capital Assets	(1,535,281)		(1,535,281)
Proceeds From Issuance of Bonds	1,471,000		1,471,000
Reduction of Debt	(16,000)	(19,500)	(35,500)
Interest Paid on Bonds	(7,814)	(48,962)	(56,776)
Net Cash Provided by Capital and Related Financing Activities	(88,095)	(68,462)	(156,557)
Cash Flows From Investing Activities			
Purchase of Investments	(132,398)	(94,885)	(227,283)
Interest on Cash Equivalents	16,507	14,003	30,510
Net Cash Provided by Investing Activities	(115,891)	(80,882)	(196,773)
Net Increase (Decrease) in Cash and Cash Equivalents	(54,703)	579	(54,124)
Cash and Cash Equivalents at Beginning of Year	187,165	20,457	207,622
Cash and Cash Equivalents at End of Year	\$ 132,462	\$ 21,036	\$ 153,498
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 103,492	\$ 87,810	\$ 191,302
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation Expense	19,392	41,723	61,115
(Increase) Decrease in Accounts Receivable	(1,771)	2,769	998
Increase (Decrease) in Accounts Payable	15,200	(731)	14,469
Net Cash Provided by Operating Activities	\$ 136,313	\$ 131,571	\$ 267,884

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS  
STATEMENT OF NET ASSETS  
COMPONENT UNIT  
December 31, 2006**

**EXHIBIT H**

Downtown  
Development  
Authority

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**ASSETS**

Cash and Cash Equivalents

\$ 17,279

Total Assets

17,279

**LIABILITIES**

Accounts Payable

7,091

Total Liabilities

7,091

**NET ASSETS**

Unrestricted

10,188

Total Net Assets

\$ 10,188

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS  
STATEMENT OF ACTIVITIES  
COMPONENT UNIT  
For the Year Ended December 31, 2006**

**EXHIBIT I**

	<u>Downtown Development Authority</u>
Program Expenses	
General Government	\$ 7,965
Public Works	<u>33,937</u>
Total Program Expenses	<u>41,902</u>
Program Revenue	
Charges for Services--Rent	38,583
Other--Donations	<u>555</u>
Total Program Revenue	<u>39,138</u>
Net Program Revenue	<u>(2,764)</u>
Change in Net Assets	<u>(2,764)</u>
Net Assets	
Beginning of Year	<u>12,952</u>
End of Year	<u><u>\$ 10,188</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

## VILLAGE OF MARCELLUS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Marcellus is located in Cass County and covers an area of .7 square miles and operates under a general law village form of government. The village provides services to its 1,193 residents in many areas including: public safety (police), public works, and general government. The Village of Marcellus is a general law village governed by a six member council and president elected by the citizens of the village.

#### REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

The individual component units discussed below are included in the village's reporting entity because of the significance of their operational or financial relationships with the village.

#### DISCRETELY PRESENTED COMPONENT UNITS

The following component unit is reported within the "component units" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the Village of Marcellus, but for which the village is financially accountable, or its relationship with the village is such that exclusion would cause the financial statements to be misleading or incomplete.

#### Downtown Development Authority

The Downtown Development Authority exists to encourage economic development in the downtown area of the village. The governing body of the component unit is appointed by the village council. The authority's property tax revenues are levied under the taxing authority of the village and are included as part of the total tax levy and the village is secondarily liable for the authority's bonds. The component unit maintains a general fund as its sole operating fund. Separate financial statements of the individual component unit have not been issued as management believes these general purpose financial statements, including disclosures, contain complete information to constitute a fair presentation of the component unit.

## VILLAGE OF MARCELLUS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### JOINT VENTURE

The Village is a member of the Marcellus Area Emergency Services Association (MAESA); a joint venture of the Village of Marcellus and the Township of Marcellus, formed to provide fire protection within the participating municipalities. Costs of operations and capital expenditures are supported by contributions from the participating municipalities that take into account their respective SEV, population, and number of fire calls. MAESA is managed by a board which consists of three members from each of the participating municipalities. During 2006, the Village contributed \$12,881 to MAESA. The board adopts the MAESA's budget and controls its financing. Complete financial statements for MAESA can be obtained from the MAESA's administration office located at: 177 East Main Street, Marcellus, Michigan 49067.

##### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## VILLAGE OF MARCELLUS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the village.

The village reports the following major governmental funds:

The General Fund is the village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

The Municipal Street Fund accounts for the extra voted millage restricted for use on both the major and local streets.

VILLAGE OF MARCELLUS  
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The village reports the following major proprietary funds:

Sewer Fund accounts for the sewer operations of the village.

Water Fund accounts for the water operations of the village.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The village has elected to consistently apply all applicable FASB pronouncements, issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are collection fees for water and sewer consumption. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the village's policy to use restricted resources first, then unrestricted resources as they are needed.

Bank Deposits and Investments

The bank deposits are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

## VILLAGE OF MARCELLUS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

#### Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

#### Property Taxes

The village's 2006 ad valorem tax is levied and collectible on July 1, 2006. It is the village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing operations. Property taxes are recognized when received. The 2006 State taxable valuation amounted to \$12,898,065, on which ad valorem taxes levied for all village purposes are \$182,665. There are 10.0368 mills for general operations and 4.1246 mills for street improvements and are recognized in the respective General and Municipal Street Fund.

Uncollected real property taxes, which become delinquent October 1, are purchased by Cass County and paid to the village in June of the subsequent year. The delinquent taxes at December 31<sup>st</sup> are recorded as delinquent taxes receivable and are offset by deferred revenue.

#### Accounts Receivable

The accounts receivable for the village are recorded in the General, Water, and Sewer Funds. The receivables are based on the garbage, sewer, and water services provided by the village. The receivables do not have an allowance for doubtful accounts because any receivables not collected are placed on the customer's tax bill. The receivable for the garbage services in the General Fund is \$4,852, the receivable for the Sewer Fund is \$16,781, and the receivable for the Water Fund is \$15,575, respectively. The receivables are not offset by deferred revenue. The General Fund also has an accounts receivable amount of \$2,535 for a franchise fee receivable due from the local cable company at December 31, 2006, making the total receivable for the General Fund \$7,387.

#### Taxes Receivable--Delinquent

The taxes receivable delinquent in the General Fund and Municipal Street Fund consist of uncollected real property taxes levied July 1, 2006, which have not been collected at December 31, 2006. The delinquent property taxes for the General and Municipal Street Fund are \$14,149 and \$5,698, respectively, and are offset by deferred revenue in the governmental fund financial statements.

# VILLAGE OF MARCELLUS

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Infrastructure assets consist of for example roads, sidewalks, and similar items. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Buildings	20 to 40 years	
Vehicles	5 to 10 years	
Equipment	5 to 10 years	5 to 10 years
Infrastructure--Roads	10 to 20 years	
Sewer System		40 years
Water System		40 years

#### Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

#### Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB No. 34, bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

## VILLAGE OF MARCELLUS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

##### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### Budgets and Budgetary Accounting

Budgets are adopted by the village council for the General Fund and Special Revenue Funds after a public hearing is held. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The village Council does not monitor or amend the budgets as necessary. Unexpended appropriations lapse at year end.

##### Excess of Expenditures over Appropriation in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

# VILLAGE OF MARCELLUS

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

During the year, the village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Administrator		\$ 3,547	\$ (3,547)
Clerk	\$ 41,770	49,123	(7,353)
Treasurer	3,245	4,309	(1,064)
Building and Grounds	22,655	22,954	(299)
Public Works			
Department of Public Works	20,000	73,043	(53,043)
Refuse Collection	56,000	56,117	(117)
Community and Economic Development			
Planning Commission	250	521	(271)
Major Street Fund			
Public Works	77,112	80,428	(3,316)
Local Street Fund			
Public Works	29,079	38,900	(9,821)
Municipal Street Fund			
Public Works	25,522	21,457	4,065

### NOTE C--BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws (MCL) 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

# VILLAGE OF MARCELLUS

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

The village has designated three banks for the deposit of village funds. The investment policy adopted by the village council in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The village's deposits and investment policy are in accordance with statutory authority.

At year end, the village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 9,142	\$153,498	\$ 162,640	\$17,279
Investments	<u>402,655</u>	<u>579,896</u>	<u>982,551</u>	
Total	<u><u>\$411,797</u></u>	<u><u>\$733,394</u></u>	<u><u>\$1,145,191</u></u>	<u><u>\$17,279</u></u>

At year end, the village's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents (Checking and Savings Accounts, Certificates of Deposit)	\$ 162,390
Investments in Mutual Funds	982,551
Petty Cash and Cash on Hand	<u>250</u>
Total	<u><u>\$1,145,191</u></u>

The bank balance of the primary government's deposits is \$174,158, of which \$174,158 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$17,279 of which \$17,279 was covered by Federal depository insurance.

### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, generally, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the village manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

# VILLAGE OF MARCELLUS

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the village's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the village's investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Government Securities	<u>\$982,551</u>	<u>\$ 982,551</u>	<u>          </u>	<u>          </u>
Total	<u>\$982,551</u>	<u>\$ 982,551</u>	<u>\$ -</u>	<u>\$ -</u>

### Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The investment policy of the village contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, the village's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Rated Debt Investments</u>			
	<u>Fair Value</u>	<u>Rating S &amp; P</u>	<u>Fair Value</u>	<u>Rating Moody's</u>
Mutual Funds	<u>\$982,551</u>	AAAm	<u>\$ 982,551</u>	Aaa
Total	<u>\$982,551</u>		<u>\$ 982,551</u>	

# VILLAGE OF MARCELLUS

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

### NOTE D--INTERFUND RECEIVABLES AND PAYABLES/TRANSFERS

The inter-fund receivables and payables for the primary government are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Primary Government General	\$ 62,293	Primary Government Sewer	\$ 14,772
		Water	20,087
		Major Street	15,428
		Local Street	12,006
Local Street	1,300	Municipal Street	1,300
Municipal Street	<u>4,132</u>	General	<u>4,132</u>
Total Primary Government	<u>\$ 67,725</u>	Total Primary Government	<u>\$ 67,725</u>

The transfers for the primary government are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government Major Street	\$ 23,478	Primary Government Municipal Street	\$ 29,778
Local Street	<u>6,300</u>		
Total Primary Government	<u>\$ 29,778</u>	Total Primary Government	<u>\$ 29,778</u>

VILLAGE OF MARCELLUS  
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

Capital asset activity of the village's governmental funds for the current year, as follows:

<u>Governmental Activities</u>	<u>Account Balances 12/31/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/06</u>
Capital Assets Not Being Depreciated				
Land and Improvements	<u>\$ 15,000</u>	<u>          </u>	<u>          </u>	<u>\$ 15,000</u>
Subtotal	<u>15,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>15,000</u>
Capital Assets Being Depreciated				
Buildings	601,409			601,409
Equipment	68,431	1,700		70,131
Vehicles	91,500		28,000	63,500
Infrastructure--Roads	<u>18,850</u>	<u>23,478</u>	<u>          </u>	<u>42,328</u>
Total	<u>780,190</u>	<u>25,178</u>	<u>28,000</u>	<u>777,368</u>
Less Accumulated Depreciation				
Buildings	259,106	15,620		274,726
Equipment	47,807	4,395		52,202
Vehicles	81,913	4,800	28,000	58,713
Infrastructure--Roads	<u>          </u>	<u>1,885</u>	<u>          </u>	<u>1,885</u>
Total	<u>388,826</u>	<u>26,700</u>	<u>28,000</u>	<u>387,526</u>
Net Capital Assets Being Depreciated	<u>391,364</u>	<u>25,178</u>	<u>26,700</u>	<u>389,842</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 406,364</u>	<u>\$ 25,178</u>	<u>\$ 26,700</u>	<u>\$ 404,842</u>

VILLAGE OF MARCELLUS  
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Capital asset activity of the village's enterprise funds for the current year, as follows:

<u>Business-Type Activities</u>	<u>Account Balances 12/31/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/06</u>
Capital Assets Being Not Depreciated				
Construction in Progress (Sewer System)	\$ 95,289	\$ 1,535,281		\$1,630,570
Subtotal	<u>95,289</u>	<u>1,535,281</u>	<u>\$ -</u>	<u>1,630,570</u>
Capital Assets Being Depreciated				
Sewer System	763,446			763,446
Water System	<u>1,542,579</u>			<u>1,542,579</u>
Total	<u>2,306,025</u>	<u>-</u>	<u>-</u>	<u>2,306,025</u>
Less Accumulated Depreciation				
Sewer System	616,034	19,392		635,426
Water System	<u>61,652</u>	<u>41,724</u>		<u>103,376</u>
Total	<u>677,686</u>	<u>61,116</u>	<u>-</u>	<u>738,802</u>
Net Capital Assets Being Depreciated	<u>1,628,339</u>	<u>-</u>	<u>61,116</u>	<u>1,567,223</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$1,723,628</u>	<u>\$1,535,281</u>	<u>\$ 61,116</u>	<u>\$3,197,793</u>

Construction in progress consists of the overhauling of the sewer system's lift stations and lagoons.

Depreciation expense was charged to programs of the primary government, as follows:

Governmental Activities	
General Government	\$ 9,837
Public Works	<u>16,863</u>
Total Governmental Activities	<u>\$ 26,700</u>
Business-Type Activities	
Sewer	\$ 19,392
Water	<u>41,723</u>
Total Business-Type Activities	<u>\$ 61,115</u>

# VILLAGE OF MARCELLUS

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--LONG-TERM DEBT

The individual long-term debt of the primary government of the village, and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>01/01/06</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/06</u>	<u>Due Within</u> <u>One Year</u>
<u>Enterprise--Water Fund</u>				
Village of Marcellus Water Fund Contractual Bonds, issued by the Farmers Home Administration, \$300,000, maturing serially through 2020 in the two amounts of \$5,000 and \$10,000, and at an interest rate of 5.0%.	\$ 150,000	\$ (10,000)	\$ 140,000	\$ 10,000
Village of Marcellus Water Fund Revenue Bonds, issued by the United State Department of Agriculture, \$792,000 maturing serially through 2042, and at an interest rate of 4.5%.	777,000	(8,000)	769,000	8,000
Village of Marcellus Water Fund Revenue Bonds, issued by the United States Department of Agriculture, \$150,000 maturing serially through 2043 and at an interest rate of 4.375%.	148,500	(1,500)	147,000	1,500
Village of Marcellus Sewer Fund Revenue Bonds, issued by the United States Department of Agriculture, \$1,707,000 maturing serially through 2045 and at an interest rate of 4.25%.	<u>1,000</u>	<u>1,471,000</u> <u>(16,000)</u>	<u>1,456,000</u>	<u>17,000</u>
Total Long-Term Debt	<u>\$1,076,500</u>	<u>\$1,435,500</u>	<u>\$2,512,000</u>	<u>\$ 36,500</u>

VILLAGE OF MARCELLUS  
NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Long-Term Debt--Enterprise Fund (Water Fund)

The annual water fund principal and interest required through maturity for the bonds payable outstanding as of December 31, 2006, as follows:

Date of Issue: September 1, 1987

Amount: \$300,000

Purpose: Water Bonds

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity September 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
5.0%	2007	\$ 10,000	\$ 7,000	\$ 17,000
	2008	10,000	6,500	16,500
	2009	10,000	6,000	16,000
	2010	10,000	5,500	15,500
	2011	10,000	5,000	15,000
	2012-2016	50,000	19,500	69,500
	<u>2017-2019</u>	<u>40,000</u>	<u>3,000</u>	<u>43,000</u>
		<u>\$ 140,000</u>	<u>\$ 52,500</u>	<u>\$192,500</u>

Interest is payable semi-annually at the rate indicated on March 1 and September 1.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

2003 Water System Improvement Bonds

The 2003 Water System Improvement Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a water system improvement project for the Village of Marcellus. The total bond issue approved by the U.S. Department of Agriculture, Rural Development, is \$792,000 with interest payable at 4.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

<u>Year</u>	<u>Principal</u>
2007	\$ 8,000
2008	9,000
2009	9,000
2010	10,000
2011	10,000
2012-2016	58,000
2017-2021	72,000
2022-2026	90,000
2027-2031	110,000
2032-2036	138,000
2037-2041	173,000
2042-2043	<u>82,000</u>
	<u><u>\$769,000</u></u>

# VILLAGE OF MARCELLUS

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--LONG-TERM DEBT (Continued)

The 2004 Water System Improvement Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a water system improvement project for the Village of Marcellus. The total bond issue approved by the U.S. Department of Agriculture, Rural Development, is \$150,000 with interest payable at 4.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

<u>Year</u>	<u>Principal</u>
2007	\$ 1,500
2008	1,500
2009	1,500
2010	1,500
2011	2,000
2012-2016	10,000
2017-2021	13,000
2022-2026	16,000
2027-2031	20,000
2032-2036	25,500
2037-2041	32,000
2042-2043	22,500
	<u>\$147,000</u>

### NOTE G--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The village maintains two enterprise funds that provide water and sewer services. Segment information for the year ended December 31, 2006, as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating Revenues	\$ 201,662	\$ 207,158	\$ 408,820
Operating Income (Loss)	103,492	87,810	191,302
Nonoperating Revenue (Expenses)	8,693	(34,959)	(26,266)
Net Income (Loss)	112,185	52,851	165,036
Land, Buildings, and Equipment			
Additions	1,535,281		1,535,281
Depreciation Expense	19,392	41,724	61,116
Net Working Capital	368,485	346,816	715,301
Long-Term Debt	1,456,000	1,056,000	2,512,000
Total Assets	2,157,047	1,806,496	3,963,543
Total Net Assets	671,075	730,019	1,401,094

## VILLAGE OF MARCELLUS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE H--RISK MANAGEMENT

The Village of Marcellus is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees' injuries (workers' compensation). The village has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workmans' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Township's Participating Plan (Plan) operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

#### NOTE I--SUBSEQUENT EVENT

As of December 31, 2006, the cillage has \$1,630,570 invested in the sewer project. To finance the sewer project, the village has purchased revenue bonds through the United States Department of Agriculture (USDA) in the amount of \$1,707,000 and at an interest of 4.25% to be repaid over the next 40 years. As of year end, \$1,472,000 of the bonds has been received to begin construction in 2006 for the sewer project and \$16,000 has been repaid on the principal portion of the bond.

**VILLAGE OF MARCELLUS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended December 31, 2006**

**EXHIBIT J**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With
	Original	Final		Final Budget
	Budget	Amended	Actual	Positive
		Budget		(Negative)
Revenues				
Taxes	\$ 122,000	\$ 122,000	\$ 131,685	\$ 9,685
Licenses and Permits	7,439	5,230	5,179	(51)
State Grants	108,369	108,369	138,664	30,295
Charge for Services	58,000	58,000	62,636	4,636
Fines and Forfeitures	-	-	80	80
Interest and Rentals	58,500	69,000	73,677	4,677
Other Revenue	-	2,500	12,468	9,968
Total Revenue	354,308	365,099	424,389	59,290
Expenditures				
General Government	85,418	118,014	119,940	(1,926)
Public Safety	128,865	129,746	113,985	15,761
Public Works	118,000	90,000	141,845	(51,845)
Community and Economic Development	250	250	521	(271)
Recreational and Cultural	1,500	1,500	-	1,500
Other	28,000	34,000	24,681	9,319
Capital Outlay	30,000	45,000	1,700	43,300
Total Expenditures	392,033	418,510	402,672	15,838
Excess of Revenues Over (Under) Expenditures	(37,725)	(53,411)	21,717	75,128
Fund Balance--January 1, 2006	230,389	327,448	307,014	(20,434)
Fund Balance--December 31, 2006	\$ 192,664	\$ 274,037	\$ 328,731	\$ 54,694

**VILLAGE OF MARCELLUS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR STREET--MAJOR SPECIAL REVENUE FUND**  
**For the Year Ended December 31, 2006**

**EXHIBIT K**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants				
Michigan Transportation Funds	\$ 49,800	\$ 49,800	\$ 51,383	\$ 1,583
Interest and Rentals			1,318	1,318
Total Revenues	49,800	49,800	52,701	2,901
Expenditures				
Public Works				
Preservation		23,478	23,478	-
Routine and Preventive Maintenance	59,466	52,500	55,816	(3,316)
Winter				
Routine and Preventive Maintenance	1,134	1,134	1,134	-
Total Expenditures	60,600	77,112	80,428	(3,316)
Excess of Revenues Over (Under) Expenditures	(10,800)	(27,312)	(27,727)	(415)
Other Financing Sources (Uses)				
Interfund Transfers In		23,478	23,478	-
Total Other Financing Sources (Uses)	-	23,478	23,478	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(10,800)	(3,834)	(4,249)	(415)
Fund Balance--January 1, 2006	11,155	11,155	24,214	13,059
Fund Balance--December 1, 2006	\$ 355	\$ 7,321	\$ 19,965	\$ 12,644

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**LOCAL STREET--MAJOR SPECIAL REVENUE FUND**  
**For the Year Ended December 31, 2006**

**EXHIBIT L**

	<b><u>BUDGETED AMOUNTS</u></b>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants				
Michigan Transportation Funds	\$ 23,331	\$ 23,500	\$ 23,174	\$ (326)
Metro Grant		5,579	3,419	(2,160)
Interest and Rentals			428	428
Total Revenues	<u>23,331</u>	<u>29,079</u>	<u>27,021</u>	<u>(2,058)</u>
Expenditures				
Public Works				
Routine and Preventive Maintenance	<u>23,331</u>	<u>29,079</u>	<u>38,900</u>	<u>(9,821)</u>
Total Expenditures	<u>23,331</u>	<u>29,079</u>	<u>38,900</u>	<u>(9,821)</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(11,879)</u>	<u>(11,879)</u>
Other Financing Sources (Uses)				
Interfund Transfers In			6,300	6,300
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>6,300</u>	<u>6,300</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>(5,579)</u>	<u>(5,579)</u>
Fund Balance--January 1, 2006	<u>-</u>	<u>-</u>	<u>5,579</u>	<u>5,579</u>
Fund Balance--December 1, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**MUNICIPAL STREET--MAJOR SPECIAL REVENUE FUND**  
**For the Year Ended December 31, 2006**

**EXHIBIT M**

	<b>BUDGETED AMOUNTS</b>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 50,000	\$ 50,000	\$ 52,620	\$ 2,620
State Grants			1,294	1,294
Interest and Rentals	1,500	1,500	4,763	3,263
Total Revenues	51,500	51,500	58,677	7,177
Expenditures				
Public Works	98,400	25,522	21,457	(4,065)
Total Expenditures	98,400	25,522	21,457	(4,065)
Excess of Revenues Over (Under) Expenditures	(46,900)	25,978	37,220	3,112
Other Financing Sources (Uses)				
Interfund Transfers (Out)	(25,382)	(48,860)	(29,778)	19,082
Total Other Financing Sources (Uses)	(25,382)	(48,860)	(29,778)	19,082
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(72,282)	(22,882)	7,442	30,324
Fund Balance--January 1, 2006	111,487	111,487	110,548	(939)
Fund Balance--December 1, 2006	\$ 39,205	\$ 88,605	\$ 117,990	\$ 29,385

**The Notes to Financial Statements are an integral part of this statement.**

**VILLAGE OF MARCELLUS**  
**STATEMENT OF REVENUES**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2006**

**EXHIBIT N**

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
<b><u>REVENUES</u></b>				
Property Taxes				
Current and Delinquent	\$ 122,000	\$ 122,000	\$ 131,685	\$ 9,685
Total Property Taxes	122,000	122,000	131,685	9,685
Licenses and Permits				
Peddler Permits	30	30	28	(2)
Franchise Fees	7,409	5,200	5,151	(49)
Total Licenses and Permits	7,439	5,230	5,179	(51)
State Aid				
Revenue Sharing	108,369	108,369	138,664	30,295
Total State Aid	108,369	108,369	138,664	30,295
Charge for Services				
Variance Fee			400	400
Garbage Use Charges	58,000	58,000	62,236	4,236
Total Charge for Services	58,000	58,000	62,636	4,636
Fines and Forfeitures				
Traffic and Ordinance Fines	-	-	80	80
Total Fines and Forfeitures	-	-	80	80
Interest and Rentals				
Vehicle Rental	45,000	55,000	48,595	(6,405)
Village Rental	12,000	12,500	12,000	(500)
Internet Tower Rent			1,100	1,100
Interest	1,500	1,500	11,982	10,482
Total Interest and Rentals	58,500	69,000	73,677	4,677
Other Revenue				
Sale of Fixed Assets	-	2,500	3,528	1,028
Other Miscellaneous			8,940	8,940
Total Other Revenue	-	2,500	12,468	9,968
Total Revenue	\$ 354,308	\$ 365,099	\$ 424,389	\$ 59,290

**VILLAGE OF MARCELLUS**  
**STATEMENT OF EXPENDITURES**  
**BUDGET AND ACTUAL--GENERAL FUND**  
**For the Year Ended December 31, 2006**

**EXHIBIT O**

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Village Council	\$ 18,244	\$ 18,244	\$ 9,833	\$ 8,411
Administrator			3,547	(3,547)
Elections	-	2,000	241	1,759
Other Professional	7,650	7,100	7,100	-
Attorney Fees	3,500	23,000	22,833	167
Clerk	23,524	41,770	49,123	(7,353)
Treasurer	4,645	3,245	4,309	(1,064)
Building and Grounds	27,855	22,655	22,954	(299)
Total General Government	85,418	118,014	119,940	(1,926)
Public Safety				
Police	116,865	116,865	101,104	15,761
Emergency Services	12,000	12,881	12,881	-
Total Public Safety	128,865	129,746	113,985	15,761
Public Works				
Department of Public Works	48,000	20,000	73,043	(53,043)
Street Lights	14,000	14,000	12,685	1,315
Refuse Collection	56,000	56,000	56,117	(117)
Total Public Works	118,000	90,000	141,845	(51,845)
Community and Economic Development				
Planning	250	250	521	(271)
Total Community and Economic Development	250	250	521	(271)
Recreational and Cultural				
Parks and Recreation	1,500	1,500	-	1,500
Total Recreational and Cultural	1,500	1,500	-	1,500
Other				
Insurance and Fringes	28,000	34,000	24,681	9,319
Total Other	28,000	34,000	24,681	9,319
Capital Outlay	30,000	45,000	1,700	43,300
Total Capital Outlay	30,000	45,000	1,700	43,300
Total Expenditures	\$ 392,033	\$ 418,510	\$ 402,672	\$ 15,838

**VILLAGE OF MARCELLUS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1) (2)**  
**For the Year Ended December 31, 2006**

**SCHEDULE 1**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor Pass-Through Number</u>	<u>Federal Expenditures</u>
<b><u>PRIMARY GOVERNMENT</u></b>			
<b>US DEPARTMENT OF AGRICULTURE</b>			
Office of Rural Development	10.760	(3)	<u>\$ 1,471,000</u>
<b>TOTAL US DEPARTMENT OF AGRICULTURE</b>			<u><u>\$ 1,471,000</u></u>

VILLAGE OF MARCELLUS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2006

- 1) The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of the Village of Marcellus. Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies, are included on the schedule.
- 2) The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note A of the village's financial statements.
- 3) Pass-through grantor's number was not available.

**Village of Marcellus**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2006**

**Section I--Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- |   |                 |     |                 |    |
|---|-----------------|-----|-----------------|----|
| • Material weakness(es) identified?   | <u>✓</u>        | Yes | <u>        </u> | No |
| • Control deficiency(ies) identified that are not considered to be material weaknesses? | <u>✓</u>        | Yes | <u>        </u> |    |
| • Noncompliance material to financial statements noted?                                 | <u>        </u> | Yes | <u>✓</u>        | No |

*Federal Awards*

Internal control over major programs:

- |   |                 |     |          |               |
|---|-----------------|-----|----------|---------------|
| • Material weakness(es) identified?   | <u>        </u> | Yes | <u>✓</u> | No            |
| • Reportable condition(s) identified that are not considered to be material weaknesses? | <u>        </u> | Yes | <u>✓</u> | None reported |

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are  
 Required to be reported in accordance  
 with section 510(a) of Circular A-133?

<u>        </u>	Yes	<u>✓</u>	No
-----------------	-----	----------	----

Identification of Major Programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish  
 Between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

<u>        </u>	Yes	<u>✓</u>	No
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**Village of Marcellus  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

**MATERIAL WEAKNESSES**

The following conditions are considered material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of misstatements in amounts that would be material in relation to the financial statements.

**General Ledger**

*Finding 2005-1*

*Condition:* As noted in the prior audit, the village's general ledger is balanced, even though the individual funds did not balance due to errors in postings. These errors consisted of posting debit entries to one fund and the corresponding credit entries to another fund. Also, we noted the village's general ledger was incomplete as the activity from the sewer project and vehicle rental expense was not recorded.

*Criteria:* The general ledger is the gathering place for all local unit financial data. Properly maintained, it is a valuable tool of management. The general ledger is the single binder in which all funds and accounts of the village are maintained.

*Cause and Effect:* Failure to post accurate accounting records (debits equal credits) on a timely basis may result in the following:

1. The financial condition of the village may not be readily determined.
2. The village council may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The village council may obligate more funds than are available, which is a violation of the Uniform Budgeting and Accounting Act.

*Recommendation:* We strongly recommend that the village council establish monthly procedures to assure that all transactions are posted properly to a general ledger and that the individual funds within the general ledger are in balance.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

The village has split the clerk/treasurer position and hired a full-time village clerk.

**Village of Marcellus  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

MATERIAL WEAKNESSES (Continued)

Bank Reconciliations

*Finding 2005-2*

*Condition:* As noted in the prior audit, the village did not perform bank reconciliations. The cash in the general ledger is not reconciled to the cash in the bank accounts for each individual fund.

*Criteria:* The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of internal controls. This is further enhanced by the Uniform Accounting Procedures Manual which states that “all bank accounts must be reconciled to the local unit accounting records monthly and should then be reviewed by the appropriate supervisory personnel.” A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. The clerk’s records must agree with or reconcile to the treasurer’s and the bank’s records.

*Recommendation:* We strongly recommend that all bank accounts be reconciled on a timely basis with the accounting records and that all bank accounts be recorded in the accounting records. The clerk and the treasurer should then compare the balances of the general ledger cash balances to the bank reconciliations. The activity in the bank should reconcile back to the general ledger and provide a means to correct errors in posting. The village must be able to determine how much money each fund has in a particular bank and/or investment account.

*Management’s Response–Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

The village clerk will prepare the reconciliations and present them to the village treasurer each month. The treasurer will check the reconciliations for inconsistencies between the computer accounting records and bank statements.

Receipting Procedures

*Finding 2005-3*

*Condition:* The village currently has the treasurer responsible for receiving payments, receipting revenues, posting payments to the village’s records, reviewing reports, preparing deposits, and making deposits. No independent review of the revenues received is performed.

*Criteria:* Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan as follows:

**Village of Marcellus  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

**MATERIAL WEAKNESSES** (Continued)

1. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
2. When possible, collections must be reconciled by an individual not involved in the receipting process.

*Recommendation:* We recommend that the village implement the aforementioned procedures. Monthly procedures should include comparing receipts written for the month with the receipts register and with bank deposits by someone other than just the village clerk/treasurer.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

Receipts will be presented by the treasurer after each payment batch is posted, the clerk or a member of the village council will verify that receipts agree with what was posted to the utility payment system.

**Capital Assets**

*Finding 2005-4*

*Condition:* The village does not maintain adequate internal controls for capital assets and a capital asset listing is not maintained in accordance with generally accepted accounting principles.

*Criteria:* It is the responsibility of the village to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. For the enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Depreciation for governmental capital assets should be recorded on the capital asset schedule. Disposals should equal the reductions to the capital asset records.

*Recommendation:* We recommend that the village develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the village should be taken and included in the permanent records of the village and updated annually.
- 2) All assets owned by the village should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the village to be removed or used by unauthorized personnel.

**Village of Marcellus  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

**MATERIAL WEAKNESSES** (Continued)

- 3) As part of the property management system, the village should keep records on all assets which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset	-Accumulated Depreciation of the Asset

- 4) Capital assets that meet the village's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

A current capital asset spreadsheet was provided by the auditor and has been saved on the clerk's computer to be updated consistently as items are purchased or sold.

**Posting of Payroll Expenditures**

*Finding 2005-5*

*Condition:* The wages of the DPW employees, clerk, and deputy clerk were posted to the village council's wage line-item in the general ledger. These errors in posting caused the council's wage line-item to be overstated by \$82,138.30. This balance consists of expenses that belong not only to the General Fund, but also the Major Street Fund, Local Street Fund, Sewer Fund, and Water Fund.

*Criteria:* According to the Uniform Chart of Accounts issued by the Michigan Department of Treasury, the village council expenses should only include direct expenditures, which include salaries and travel costs, that represent expenditures incurred by members themselves or by a committee of the governing body.

**Village of Marcellus  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

**MATERIAL WEAKNESSES** (Continued)

All payroll postings to the general ledger should be posted to the individual funds and activities to which the payroll expenses are directly related to. Public Act 51 of 1951 requires that actual costs (including payroll) be used in preparation of the Act 51 report (required by the Michigan Department of Transportation).

*Recommendation:* We recommend that the village reassess its payroll processing system to ensure that the payroll expenses are directly posted to the proper funds and activities.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

To some extent, the payroll system has been updated, it is difficult (and risky) to adjust payroll processing in the middle of a year. A payroll transfer spreadsheet is currently being maintained to provide accurate general journal adjustment information. The clerk will try to update the payroll system at the beginning of 2008 before any payroll is processed.

**CONTROL DEFICIENCIES**

Our audit also disclosed the following significant deficiencies not considered to be material weaknesses which we wish to point out for consideration by the management of the Village of Marcellus.

**Employee and Employer Portion of Payroll Withholdings**

*Finding 2005-7*

*Condition:* As noted in the prior audit, we found that the village is incorrectly paying the employees' portion and employer's portion of the taxes out of account 101-850 activity.

*Criteria:* The employees' portion of the taxes should be transferred to a liability line-item. When payment is made to the State or Internal Revenue Service, the employees' portion of the taxes due should be removed from the liability line-item. The employer's portion should be disbursed from the other respective general fund activities (village council, clerk, department of public works).

*Recommendation:* We strongly recommend that the village comply with these standards in accounting for payroll taxes.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

Payroll tax information is currently being entered on the payroll transfer spreadsheet to provide accurate general journal adjustment information.

**Village of Marcellus  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

CONTROL DEFICIENCIES (Continued)

Accruals

*Finding 2005-9*

*Condition:* Accruals (accounts receivable and accounts payable), the recording of the revenues in the accounting period to which they relate, were not recorded for the utilities in the enterprise fund or governmental funds. The village also does not record the December and February distribution of State Revenue Sharing, the November and December motor transportation funding, or the second payment received from the cable company for franchise fees as a receivable. Therefore, the corresponding revenue accounts are misstated.

*Criteria:* Governmental funds are to be maintained on a modified accrual basis. Generally accepted accounting principles also require that accounts receivable and accounts payable be established to properly match the fiscal year's revenues and expenses. Enterprise funds are to be maintained on a full accrual basis of accounting.

*Recommendation:* We recommend that the village record accruals. The accruals should be reconciled to subsidiary records to support the balances in the respective general ledger accounts.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

Accruals will be completed during the first few months of each year after all the expected bills and payments are received.

Investment Policy--Investment Risk Assessments

*Finding 2005-10*

*Condition:* The village has not assessed investment risks as required by GASB Statement No. 40.

*Criteria:* The Governmental Accounting Standards Board adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," an amendment of GASB Statement No. 3. The provisions of GASB No. 40 are effective for financial statements for periods beginning after June 15, 2004.

The GASB Statement No. 40 summary states in part: "The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed."

**Village of Marcellus**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

CONTROL DEFICIENCIES (Continued)

*Recommendation:* We recommend that the village update its investment policy to include the requirements of GASB Statement No. 40 and have the village council adopt the new policy. A sample investment policy has been provided to the village which addresses the risks in the following sections:

1. Credit Risk
2. Interest Rate Risk
3. Custodial Risk (under Safekeeping and Custody)

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

The Village will adopt an updated investment policy which includes the requirements of GASB Statement No. 40.

Reserve Cash Balances

*Finding 2006-01*

*Condition:* The village has not been transferring payments to the sewer bond reserve; sewer reserve, replacement, and improvement account; water bond reserve; and water reserve, replacement, and improvement account.

*Criteria:* According to village ordinances, the village is required to transfer funds quarterly to the sewer bond reserve and the repair, replace, and improvement bank accounts. Ordinance 188, the sewer bond reserve, should have \$9,300 transferred annually for ten years; and the sewer reserve, repair, replacement, and improvement account should have \$16,500 transferred annually for ten years; and then \$25,800 for the remainder of the bond thereafter. Ordinances 175 and 179, the water bond reserve, should have \$5,150 transferred annually for ten years; and the water reserve, repair, replacement, and improvement account should have \$17,550 transferred annually for ten years; and then \$22,700 for the remainder of the bond thereafter.

The following chart displays the amount in each account as of December 31, 2006 and the amount that should be in the accounts based on the ordinances.

	<u>Required Balance</u>	<u>Balance 12/31/06</u>	<u>Shortage (Overage)</u>
Sewer Bond Reserve	\$ 9,300.00	\$ 17,245.92	\$ (7,945.92)
Sewer Repair, Replacement, and Improvements	16,500.00	9,720.43	6,779.57
Water Bond Reserve	15,450.00	22,496.76	(7,046.76)
Water Repair, Replacement, and Improvements	52,650.00	33,471.54	19,178.46

**Village of Marcellus**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

CONTROL DEFICIENCIES (Continued)

*Recommendation:* We recommend that the village correct these balances and begin monitoring the bank accounts to ensure that the proper amounts are transferred to the separate bank accounts in accordance with the village's ordinances.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

Required funds will be transferred quarterly according to the requirements of the appropriate ordinances. Proof of such transfers will be provided to the village council at the next regular council meeting.

Labor Policy

*Finding 2006-02*

*Condition:* The current labor policy used by the Village of Marcellus is dated July 1, 1992 and includes provisions for a police department that has not been a part of the village since 1999.

*Criteria:* As defined by the village's own labor policy, "the personnel policy established cover all personnel who are employed or compensated by the Village of Marcellus." The personnel disclosed in the labor policy have changed since 1992 along with the benefits offered by the village.

*Recommendation:* We recommend that the village revise, approve, and implement a new personnel/labor policy in accordance with the current staff employed by the village and benefits being offered.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

The village council currently is in the process of reviewing a personnel policy prepared by the village president and the village attorney.

**Village of Marcellus**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2006**

STATUTORY NONCOMPLIANCEExpenditures in Excess of Appropriations*Finding 2005-11*

*Condition:* Our examination of procedures used by the village to adopt and maintain operating budgets for budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The village's 2006 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled at the activity level. As detailed below, actual 2006 expenditures exceeded the village council's approved budget allocations for several general fund activities.

During the fiscal year ended December 31, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and Special Revenue Funds as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Administrator		\$ 3,547	\$ (3,547)
Clerk	\$ 41,770	49,123	(7,353)
Treasurer	3,245	4,309	(1,064)
Building and Grounds	22,655	22,954	(299)
Public Works			
Department of Public Works	20,000	73,043	(53,043)
Refuse Collection	56,000	56,117	(117)
Community and Economic Development			
Planning Commission	250	521	(271)
Major Street Fund			
Public Works	77,112	80,428	(3,316)
Local Street Fund			
Public Works	29,079	38,900	(9,821)
Municipal Street Fund			
Public Works	25,522	21,457	4,065

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

*Direction:* Again, we direct the village to develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

**Village of Marcellus  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

STATUTORY NONCOMPLIANCE (Continued)

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

A spreadsheet is being developed to track budgeted expenses and revenues on a quarterly basis and will be presented at the next council meeting.

Social Security Number Privacy Policy

*Finding 2006-03*

*Condition:* The Village of Marcellus has not adopted a Social Security Number Privacy Policy.

*Criteria:* According to the Social Security Privacy Act, PA 454 of 2004, MCL 455.84, Section 4, subsection 1, beginning January 1, 2006, a person in the ordinary course of business who obtains or retains information about one or more social security numbers must create a policy that does at least all of the following:

- (a) Ensures to the extent practicable the confidentiality of the social security numbers.
- (b) Prohibits unlawful disclosure of the social security numbers.
- (c) Limits who has access to information or documents that contain the social security numbers.
- (d) Describes how to properly dispose of documents that contain the social security numbers.
- (e) Establishes penalties for violation of the privacy policy.

Section 4, subsection 2, requires a person that creates a privacy policy under subsection 1 shall publish the privacy policy in an employee handbook, in a procedures manual, or in one or more similar documents, which may be made available electronically.

*Directive:* We direct the Village of Marcellus to adopt a Social Security Number Privacy Policy implementing at least the minimum protections and procedures listed above.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

A new policy will be adopted.

Public Notice of Meetings-Downtown Development Authority

*Finding 2006-04*

*Condition:* No public notice of the meetings of the Downtown Development Authority is posted as required by state statute.

**Village of Marcellus  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2006**

**Section II--Financial Statement Findings**

**STATUTORY NONCOMPLIANCE** (Continued)

*Criteria:* According to Michigan Compiled Laws (MCL) 15.264 requires a public notice be posted as the public body's principal office. Furthermore, MCL 15.265 states a public meeting is not to be held unless public notice is given. MCL 15.265 also requires that the public notice of the meetings state the dates, times, and places of the regular meetings of the public body.

*Directive:* We direct the Downtown Development Authority to post public notices of its meetings as directed in the state statutes above.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

**Non-Motorized Transportation**

*Finding 2006-05*

*Condition:* The Village of Marcellus has not spent any Michigan Transportation Funds on nonmotorized expenditures in the past ten years. Based on MCL 247.660k, at least \$7,465 should have been spent.

*Criteria:* According to MCL 247.660k, a reasonable amount, but not less than 1% of the funds from the Michigan Transportation Fund is to be expended on nonmotorized transportation services and facilities (an improvement in a road, street, or highway which facilities nonmotorized transportation by the paving of unpaved road surfaces and shoulders, widening of lanes, or any other appropriate measures) per year.

Failure to comply with this statute could lead to the withholding of Michigan Transportation Funds.

*Directive:* We direct the village to contact the Michigan Department of Transportation to formulate a corrective plan to spend the remaining amount due on non-motorized transportation and to monitor these expenses more closely in the future.

*Management's Response--Corrective Action Plan:* Village of Marcellus, Marcellus, Michigan 49067. Telephone (269) 646-5485.

The village is aware that they are in noncompliance with the nonmotorized transportation requirement and has been in contact with the Michigan Department of Transportation. MDOT has advised the village to devise a plan as soon as possible and submit it to them. After approval from MDOT, the village will implement the plan.

**Section III--Federal Award Findings and Questioned Costs**

None



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

October 15, 2007

Village Council  
Village of Marcellus  
P.O. Box 428  
Marcellus, Michigan 49067

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of the Financial Statements Performed in Accordance  
With Government Auditing Standards

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, the component unit, each major fund, and the aggregate remaining fund information of the Village of Marcellus, Cass County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Village of Marcellus's basic financial statements and have issued our report thereon dated October 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Marcellus's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Marcellus's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Marcellus's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the previous paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the village's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the village's financial statements that is more than inconsequential will not be prevented or detected by the village's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting and are documented as items 2005-01, 2005-02, 2005-03, 2005-04, 2005-05, 2005-07, 2005-09, 2005-10, 2006-01, and 2006-02.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we consider items 2005-01, 2005-02, 2005-03, 2005-04, and 2005-05 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Marcellus's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Questioned Costs as items 2005-11, 2006-03, 2006-04, and 2006-05.

The Village of Marcellus' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the village's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of Marcellus' Village Council and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

October 15, 2007

Village Council  
Village of Marcellus  
P.O. Box 428  
Marcellus, Michigan 49067

RE: Unqualified Opinion on Report on Compliance with Requirements Applicable to Each  
Major Program and on Internal Control over Compliance in Accordance With OMB  
Circular A-133

Independent Auditor's Report

Dear Board Members:

Compliance--We have audited the compliance of the Village of Marcellus with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended December 31, 2006. The Village of Marcellus' major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Village of Marcellus' management. Our responsibility is to express an opinion on the Village of Marcellus' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program. An audit includes examining, on a test basis, evidence about the Village of Marcellus' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Village of Marcellus' compliance with those requirements.

In our opinion, the Village of Marcellus complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2006.

Internal Control Over Compliance--The management of the Village of Marcellus is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Village of Marcellus' internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village of Marcellus' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the village's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the village's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the village's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the village's internal controls that might be significant deficiencies or material weaknesses as defined above. However, we did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we considered to be material weaknesses.

This report is intended solely for the information and use of management, the Marcellus Village Council, and Federal awarding agencies and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division